



Paladin Healthcare Capital, LLC

CONFIDENTIAL

June 10, 2014

Geoffrey Ligibel, Director
Houlihan Lokey
123 North Wacker Dr.
4th Floor
Chicago, IL 60606

Re: Acquisition of Daughters of Charity Health System

Gentlemen,

Paladin Healthcare Capital, LLC ("Paladin") and MidCap Financial, LLC ("MidCap") (together referred to as "Buyer") is pleased to submit its markup to the draft Asset Purchase Agreement posted by Daughters of Charity Health System ("DCHS" or the "Seller") in relation to Buyer's non-binding proposal (the "Proposal") to acquire substantially all of the assets (the "Business") of DCHS all as more fully described in the Buyer's 2nd Bid Letter, dated as of May 21, 2014 (the "2nd Bid Letter"). For purposes herein, the acquisition by Buyer of the aforementioned Business of DCHS is hereafter referred to as the "Transaction." All capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Bid Letter.

As you know, the 2nd Bid Letter contemplates that Buyer will form several special purpose entities to acquire the Business. Substantially all of the assets of each of DCHS's six acute care hospitals (each, a "Hospital") and medical office buildings (the "MOBs") will be acquired by individual Op-Cos and Prop-Cos, with the operating assets of each Hospital being acquired by a separate Op-Co, and the real and personal property of each Hospital being acquired by a separate Prop-Co, with one Prop-Co likely acquiring all MOBs. Each Op-Co will lease its Hospital property from a corresponding Prop-Co at market rates and will receive an option to purchase said property such that the leases can be classified as capital leases with the assets and liabilities residing on the Op-Co balance sheets. Each Op-Co will enter into a market-based management and administrative services agreement with a separate Manage-Co. As noted in the Bid Letter, each of the Op-Cos will be wholly-owned subsidiaries of a common S-Corp Parent Company (the "Op-Co Parent"), which will create an employee stock ownership plan ("ESOP") whereby participating employees will own 100% of the Op-Co Parent.

For ease of reference, Paladin and MidCap have taken the liberty to jointly revise the form of Asset Purchase Agreement with respect to the acquisition of one Hospital by an Op-Co/Prop-Co entity group. The assets of each Hospital will be acquired using substantially similar forms of Asset Purchase Agreement as that which is attached hereto. Therefore, the Transaction will require several individualized and tailored Asset Purchase Agreements and all contemplated transactions would close simultaneously.

Buyer expects that assets such as the pooled investment fund, restricted cash, governmental receivables, non-hospital operating companies (e.g., Caritas Business Services, Marillac Insurance Company, De Paul Ventures), and other investments held by DCHS will be acquired by one or more Special Purpose Entities ("SPEs") pursuant to separate Asset Purchase Agreements based on the form attached but modified to reflect the purchase of non-Hospital assets.

For the avoidance of doubt, it is Buyer's expectation that, other than pension liabilities, accounts payable, and post-closing liabilities relating to assumed contracts and the real and personal property acquired by the Op-Cos or Prop-Cos, no other liabilities of DCHS or any of the Hospitals will be transferred and all such liabilities will remain the obligation of DCHS and its subsidiaries and affiliates.

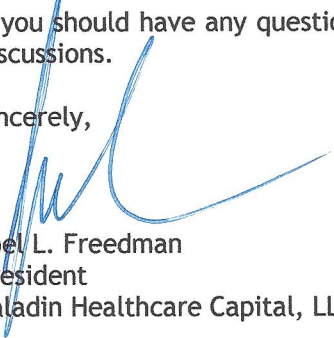
Buyer would like to highlight several terms of the Transaction that DCHS should be aware of when reviewing the proposed revisions to the Asset Purchase Agreement:

1. Buyer will not require negotiations with unions prior to the Closing and will assume collective bargaining agreements subject to required notice periods.
2. Buyer will commit to not permitting abortions to be performed at the Hospitals.
3. Buyer will forego a working capital adjustment that could result in a portion of purchase price being returned to Buyer; in exchange, Buyer requests that any unrestricted cash that remains unused as of the Closing be transferred to the Op-Cos. Buyer acknowledges that such unrestricted cash is earmarked for pre-closing operations, transaction fees, regulatory requirements, statutory requirements (e.g., payment of all accrued PTO), other transaction costs (e.g., purchase of representations and warranties Insurance), repayment of existing debt obligations, and other agreed upon uses.
4. Buyer expects that DCHS will be a party to each Asset Purchase Agreement and provide indemnity together with each operating company with respect to breaches or representations, warranties and covenants and other customary indemnities in transactions such as these. Given that, on a post-closing basis, the DCHS indemnity will essentially be backed by an asset-less shell, Buyer will require that a reasonable and customary level of representations and warranties insurance be purchased in relation to each Asset Purchase Agreement (the cost of which will be funded by DCHS unrestricted cash). Buyer will commit to assisting in the acquisition of such policies. Buyer has not shared the attached form of Asset Purchase Agreement with a rep and warranty insurance company but expects to do so shortly and will provide DCHS with additional feedback as received.
5. During the pre-Closing period, Buyer would like the opportunity to place consultants at each Hospital to ensure a smooth transition at the Closing.
6. Buyer's markup includes several other material additions which are vital to accomplish a transaction that satisfies all of the Seller's goals.
7. As per the attached letter, MidCap/Apollo are, subject to final due diligence, committed to funding 100% of the capital requirements outlined in the Bid Letter. Accordingly, the Transaction will not include any financing contingencies, although it will be subject to standard Material Adverse Change provisions, as well as regulatory approval.
8. Buyer appreciates that transactions can be challenging. Buyer will be committing very significant resources to this Transaction, and in the event that the APA is terminated due to DCHS's material breach, Buyer will require a termination fee equal to its costs and expenses in negotiating and supporting the Transaction.

Paladin and MidCap/Apollo are excited for the opportunity to move forward with the Transaction. Both companies have significant experience completing transactions within relatively short timelines and are prepared to move expeditiously to complete the Transaction, including executing binding APAs by July 31, 2014, if not sooner. Accordingly, we look forward to discussing the attached markup with you at your earliest convenience.

If you should have any questions, please contact me at 310-414-2700. I look forward to continuing our discussions.

Sincerely,



Joel L. Freedman
President
Paladin Healthcare Capital, LLC

cc: Eric Klein
James MacPherson
Nicholas Orzano
Garrett Fletcher
Bill Rubenstein

Attachments:
Markup of Asset Purchase Agreement
Letter from MidCap/Apollo